

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY	)	CASE NO.
UTILITIES COMPANY FOR AN ADJUSTMENT OF	)	2018-00294
ITS ELECTRIC RATES	)	

COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION  
TO DEPARTMENT OF DEFENSE AND ALL OTHER FEDERAL EXECUTIVE  
AGENCIES

The Department of Defense and all other Federal Executive Agencies (DOD/FEA), pursuant to 807 KAR 5:001, is to file with the Commission the original and an electronic version of the following information. The information requested herein is due on February 14, 2019. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable and shall be appropriately bookmarked. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

DOD/FEA shall make timely amendment to any prior response if DOD/FEA obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which DOD/FEA fails or refuses to furnish all or part of the requested information, DOD/FEA shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, DOD/FEA shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to the Direct Testimony of Glenn A. Watkins on behalf of the Kentucky Office of the Attorney General pages 20–21. Mr. Watkins concludes that Kentucky Utilities Company's (KU) cost-of-service study (COSS) should be rejected and proposes that any revenue increase be distributed on an equal percentage basis to the individual classes.

a. State the DOD/FEA's opinion regarding Mr. Watkins' conclusion that KU's COSS should be rejected in its entirety.

b. State whether the DOD/FEA agrees that an equal percentage or pro rata revenue allocation in the absence of an approved COSS is an appropriate method of revenue allocation.

2. Refer to the Direct Testimony of James T. Selecky (Selecky Testimony), page 12, line 18.

a. Provide support for the proposed two percentage point increase in proposed revenues for the residential rate.

b. Also, refer to page 9, lines 20–21 in which Mr. Selecky notes that Rate Class Time of Day Primary (TODP) is providing a rate of return below the system average. Explain why an additional increase for Rate Class TODP is not suggested.

3. Refer to the Selecky Testimony, page 14, lines 7–15. Explain if the fact that no other regulatory jurisdiction has adopted the Loss of Load Probability cost-of-service method should be the only reason to reject KU's proposed COSS.

4. Refer to the Selecky Testimony, page 19, lines 13–21. Mr. Selecky accepts the proposed methodology for cost recovery of demand charges for rate TODP, but not the proposed rates. Provide the proposed rates Mr. Selecky would recommend along with an analysis supporting the rates.

5. Refer to the Selecky Testimony, page 20, lines 19–24. Provide the estimated revenue impact from Fort Knox changing from Rate TODP to the Retail Transmission Service Rate.

6. Refer to the Selecky Testimony, Exhibit JTS-8. Provide all supporting workpapers for the proposed COSS in Excel spreadsheet format with all rows and columns accessible and formulas unprotected.

7. Refer to the Direct Testimony of Christopher C. Walters (Walters Testimony), page 5. Provide all supporting source documents used to compile Table 1.

8. Refer to the Walters Testimony, page 7, line 23. Define what is considered to be a robust valuation for regulated utilities.

9. Refer to the Walters Testimony, page 17, lines 11–13.

a. Explain why the short-term debt is excluded from the Value Line calculation of the average common equity ratio.

b. Provide the average Value Line common equity ratio including short-term debt.

10. Refer to the Walters Testimony, page 20, lines 13–17. Explain why earnings growth estimates from Value Line were not used.

11. Refer to the Walters Testimony, page 26, lines 7–12. Provide academic support for the assumptions applied to the transition growth rates adjustments.

12. Refer to the Walters Testimony, Exhibit CCW-8. The graph illustrates how electricity use and total energy use has not increased as fast as Real GDP growth. Explain whether the flattening of electricity use and total energy use is due to efficiency measures.

13. Refer to the Walters Testimony, page 40, line 7 and Exhibit CCW-14. Explain why the three-month average of the Treasury bond yield is used as opposed to the most recent Treasury bond yield.

14. Refer to the Walters Testimony, page 46, line 9. The recommended return on equity (ROE) of 9.35 percent is 35 basis points below the awarded ROE in KU's last rate case, Case No. 2016-00370.<sup>1</sup> In addition, the recommended ROE is 37.5 basis points less the most recent Commission-awarded ROE for an electric utility in Case No. 2017-

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<sup>1</sup> Case No. 2016-00370, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates and for Certificates of Public Convenience and Necessity* (Ky. PSC June 22, 2017).

00321.<sup>2</sup> Lastly, since the final order in Case No. 2016-00370, the federal funds rate has increased four times, the economy has reached full employment, and inflation has increased to almost the target rate of two percent. Explain how a relatively lower ROE is supported by the macroeconomic data and federal funds interest rate increases.

15. Refer to the Walters Testimony, page 58, lines 14–15. Explain how Value Line adjusts its published beta estimates.

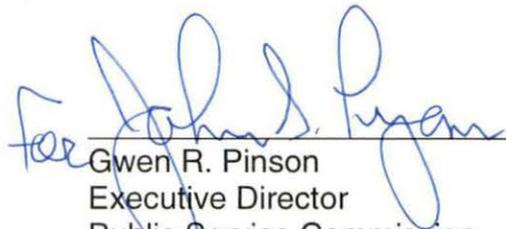
16. Refer to pages 13–14 of the Direct Testimony of Stephen J. Baron on behalf of Kentucky Industrial Utility Customers, Inc. (KIUC). Mr. Baron presents an alternative COSS based on the 12 coincident peak (CP) method.

a. State the opinion of the DOD/FEA regarding the 12 CP methodology.

b. State whether the DOD/FEA believes the 12 CP methodology would produce a COSS that could be used to allocate the revenue increase.

c. State whether the DOD/FEA supports KIUC's proposed COSS.

17. Provide all exhibits in Excel spreadsheet format with all rows and columns accessible and formulas unprotected.



Gwen R. Pinson  
Executive Director  
Public Service Commission  
P.O. Box 615  
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DATED JAN 31 2019

cc: Parties of Record

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<sup>2</sup> Case No. 2017-00321, *Electronic Application of Duke Energy Kentucky, Inc. for: 1) An Adjustment of the Electric Rates; 2) Approval of an Environmental Compliance Plan and Surcharge Mechanism; 3) Approval of New Tariffs; 4) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 5) All Other Required Approvals and Relief* (Ky. PSC Apr. 13, 2018).

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